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FISCAL IMPACT STATEMENT

LS 6911

BILL NUMBER: HB 1740

NOTE PREPARED: Dec 30, 2002

BILL AMENDED:

SUBJECT: Job Skills Training Expense Tax Credit.

FIRST AUTHOR: Rep. Scholer

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
☐ **FEDERAL**

IMPACT: State

Summary of Legislation: The bill requires the Department of Workforce Development to adopt rules for: (1) certifying job skills training programs; and (2) certifying that a particular job skills training program is related to particular career fields or job classifications. The bill provides to a qualified employer a nonrefundable state tax liability credit equal to 10% of expenditures made for job skills training programs on behalf of its employees. The bill also provides to an individual taxpayer a refundable state tax liability credit equal to the lesser of: (1) \$250; or (2) 25% of expenses for job skills training programs paid by the individual and not reimbursed by the individual's employer. The bill requires an individual to submit proof that a certified job skills training program is related to the individual's career field or job classification, as determined by the department, in order to claim the credit.

Effective Date: Upon passage; January 1, 2004.

Explanation of State Expenditures: *Department of State Revenue:* The Department of State Revenue (DOR) would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate these tax credits. These expenses presumably could be absorbed given the DOR's existing budget and resources. Specifically, the bill requires an employer or employee claiming the pertinent training expense credit to submit to the DOR proof of payment of training program expenses and proof that the training program was certified by the Department of Workforce Development. A taxpayer claiming the employee credit also must submit proof that the training program was related to his or her career field or job classification, as determined by the Department of Workforce Development.

Certification of Training Programs: The bill requires the Department of Workforce Development to certify job skills training programs for purposes of the employer and employee tax credits and to certify that job

skills training is related to particular career fields and job classifications for purposes of the employee tax credit. The bill requires the Department to prescribe forms for applying to certify a training program and to adopt rules for the certification procedure. The certification rules must require that a certified job skills training program be conducted under an organized written plan that describes: (1) program training, instruction, or other curricula; (2) career fields or job classifications to which the training relates; (3) training duration; (4) any certification, license, or degree earned at completion of the training program; (5) any fees or tuition charged for the program; and (6) the sponsor's experience in conducting that or other training programs. The Department of Workforce Development should be able to meet these demands given its current budget and resources. The December 7, 2002, state staffing table indicates that the Department has 79 vacant full-time positions, including regional office positions.

Explanation of State Revenues: The bill establishes a tax credit for costs incurred by employers in providing for certified job skills training for their employees. The bill also establishes a tax credit for the cost incurred by employees in obtaining work-related training from a certified program which is not reimbursed by his or her employer. The bill could potentially reduce revenue from the Adjusted Gross Income (AGI) Tax, the Insurance Premiums Tax, and the Financial Institutions Tax by an indeterminable amount beginning in FY 2005. The extent of the revenue loss would depend upon a number of factors, including employer and employee cost and utilization of training programs certified by the Department of Workforce Development.

Training Expense Tax Credits: Under the bill, a "qualified employer" is entitled to a nonrefundable tax credit equal to 10% of expenses incurred in: (1) sponsoring or co-sponsoring a certified "job skills training program" that the employer provides to his or her employees; or (2) reimbursing his or her employees for participation in a certified job skills training program the employer doesn't sponsor or co-sponsor. If the employer is a sponsor or co-sponsor of a certified program, the tax credit covers the employer's expenses to the extent that they are incurred in providing training to his or her employees and not to other program participants. Creditable training program expenditures also do not include indirect costs incurred by an employer such as wages, salaries, and fringe benefits paid to employees while attending a certified job skills training program. A *job skills training program* is a course or program designed to develop, enhance, or upgrade: (1) basic workforce skills of an employee, including literacy, communication skills, computational skills, or other transferable workforce skills; or (2) advanced, specialized, or industry specific skills of an employee that are directly related to the employee's job or career. Certification of such programs would be done by the Department of Workforce Development (see above under *Explanation of State Expenditures*). A *qualified employer* is a person, corporation, or pass through entity (a partnership, limited liability company, or limited liability partnership) that pays an average hourly wage to employees other than "highly compensated employees" that exceeds 150% of the federal minimum wage. The bill references the federal Internal Revenue Code definition of "highly compensated employee." Such an employee is: (1) any employee who was a 5% owner at any time during the year or the preceding year; or (2) an employee who had compensation for the preceding year in excess of \$90,000 for 2002 and, if the employer elects, was among the top 20% of employees by compensation for the preceding year. The dollar amount is inflation adjusted each year by the U.S. Secretary of the Treasury.

The credit is allowed against a qualified employer's AGI Tax, Insurance Premiums Tax, or Financial Institutions Tax liability. If the amount of the credit exceeds the qualified employer's tax liability, the excess credit may be carried forward to subsequent years. The excess credit is not refundable, nor is the employer entitled to a carryback. If a qualified employer is a pass through entity and does not have a tax liability, the credit could be taken by shareholders, partners, beneficiaries, or members of the pass through entity in proportion to their distributive income from the pass through entity.

The bill also provides an individual taxpayer with a refundable tax credit against his or her AGI Tax liability equal to the lesser of \$250 or 25% of training fees, or tuition paid by the taxpayer and not reimbursed or otherwise covered by the taxpayer's employer. To be creditable expenses, the fees or tuition must result from participation in a certified job skills training program that relates to the taxpayer's career field or job classification, as determined under rules of the Department of Workforce Development (see above under *Explanation of State Expenditures*). If a husband and wife file a joint return, each may claim the credit amount he or she would be entitled to claim separately. If the amount of the credit exceeds the taxpayer's liability, the taxpayer is entitled to a refund of the excess credit or the taxpayer may carry forward the excess credit to subsequent years. However, the taxpayer is not entitled to a carryback.

Revenue from the AGI Tax on corporations, the Insurance Premiums Tax, and the Financial Institutions Tax is distributed to the state General Fund. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of this revenue is deposited in the Property Tax Replacement Fund. Since the tax credits are effective beginning in tax year 2004, the fiscal impact would begin in FY 2005.

Data on Job Training Costs: Data is unavailable relating to costs incurred by employees for job- or career-specific training that is not reimbursed by their employers and that could potentially be creditable expenses under the bill. Relative to employer-incurred training expenses, however, the *National Compensation Survey (1999)* by the U.S. Bureau of Labor Statistics (BLS) indicates that an average of 39% of workers in the Midwest receive education assistance from their employers for work-related studies. In addition, the BLS's *Survey of Employer-Provided Training (1995)* suggests that employers with 50 or more employees provided about 17 hours of "job skills training" to employees during 1995. This training included: (1) literacy and other basic skills training; (2) training in communications, speaking, writing, and other related skills; and (3) training in professional, management, technical, and other job- or career-specific skills. All of these would appear to fall within the criteria for job skills training under the bill. In terms of employer-incurred training costs, the BLS survey indicates that training expenditures by employers with 50 or more employees averaged \$305 per employee in 1994. The 1994 average training expense increases to \$372 in current terms when adjusted for inflation. These costs were incurred for employee tuition reimbursements, wages and salaries of in-house trainers, and payments and other costs for outside trainers. However, the survey does not specify the different types of training for which these expenses were incurred. It also does not specify training expenses by wage or salary scale of the employer. Nationally, the BLS survey indicates such training costs totaled an estimated \$14,857 M to \$18,421 M in 1994. Allocated based on Indiana's percentage of the employed workforce nationally (approximately 2.2%) and adjusted for inflation, job training costs incurred by Indiana businesses could potentially total as much as \$409 M to \$507 M in current terms.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue; Department of Workforce Development.

Local Agencies Affected:

Information Sources: 2003 U.S. Master Tax Guide, paragraph 2111.; U.S. Bureau of Labor Statistics, 1995 *Survey of Employer-Provided Training: Employer Results*, July 10, 1996; U.S. Bureau of Labor Statistics, *Employee Benefits in Private Industry*, 1999, December 19, 2001.

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